



POLICY			
TITLE:	BUDGET PREPARATION	CODE:	FM.05
PURPOSE or OBJECTIVE:	To guide the establishment of the City's long term financial plan and annual budget objectives.		
REFERENCE DOCUMENTS:	Local Government Act 1995		

POLICY STATEMENT
To effectively guide and sustainably plan the City's financial capacity within the Integrated Planning and Reporting Framework, for a transparent, responsible and well-coordinated approach to the management of the City's resources.

- 1. Scope**
This policy applies to Council and City.

- 2. Definitions**

<i>Budget</i>	<i>A statutory requirement outlining the financial estimates to deliver the Corporate Business Plan.</i>
<i>Integrated Planning</i>	<i>A framework for establishing community priorities and linking this information into different parts of a local government's functions.</i>
<i>Strategic Community Plan</i>	<i>The strategy and planning document that reflects the longer term (10+ year) community and local government aspirations and priorities.</i>
<i>Corporate Business Plan</i>	<i>A local government's internal business planning tool that translates Council priorities into operations within the resources available. It identifies and summarises the services, projects and operations that the local government will seek to deliver and how much they will cost.</i>
<i>Internally Restricted</i>	<i>Funds that are allocated towards an intended purpose over which the City has control and discretion to apply or redirect.</i>
<i>Externally Restricted</i>	<i>Funds that are required to be used in a specific way or for a specific purpose, through obligations to external providers or by legislation.</i>
<i>Long Term Financial Plan</i>	<i>A 10-year rolling plan that informs the Corporate Business Plan to activate Strategic Community Plan priorities. It indicates a local government's long term financial sustainability and allows early identification of financial issues and their longer term impacts.</i>

- 3. Long Term Financial Planning**

As part of its responsibilities under the Integrated Planning and Reporting Framework, the City prepares:

- 10 year Strategic Community Plan
- 4 year Corporate Business Plan
- 10 year Asset Management Plans
- 4 year Workforce Plan

To enable the city to effectively and sustainably match its financial capacity with the strategic intent suggested by these planning documents, the city also prepares a Long Term Financial Plan.

The Long Term Financial Plan (LTFP) provides a forecast of the City's financial performance. These financial forecasts developed as part of the City's responsibilities under Integrated Planning and Reporting Framework, are to reflect the agreed strategic direction linking the City's organisational and financial capacity. Effective development requires the complementary participation of stakeholders within and external to the City.

The objectives of the 10 year LTFP are to;

- Establish a 10 year rolling plan that informs the Corporate Business Plan to activate Strategic Community Plan priorities
- Provide persuasive guidance in the preparation of the annual budget
- Set future financial performance and sustainability ratio trends that aim to achieve advanced compliance with the Department of Local Government and Communities Advisory Standard Guidelines.

4. Annual Budget

Local Governments are also required to prepare an annual budget in accordance with relevant statutory requirements each year. Best practice in financial management suggests there be a clear articulation of the different, but complementary roles of council members and the administration in the process by which these key financial documents are prepared and integrated. The output of this process should be a transparent, responsible and well-coordinated approach to the sustainable management of the City's financial resources.

The objectives of the City's annual financial budget are to;

- Initiate the Long Term Financial Plan
- Consider current circumstances that may have a material effect on fiscal outlook, including Federal and State Government Policy
- Maintain financial projections and ratio targets
- Minimise carry over funding for projects
- Allocate year end surplus funds to reserves

A principal focus for Council members in the financial planning process is to ensure alignment between the City's identified integrated planning and reporting framework documents and their direction established within.

Administrative staff are primarily responsible for determining the detailed line items to be included within the key financial documents, giving due consideration to strategic alignment, budget cash flow constraints, community views and statutory requirements.

The budget process is to be consistent with the Strategic Community Plan and informing strategies incorporated within the Corporate Business Plan. To the fullest extent possible, this is commenced with the first year of the 10 year Long Term Financial Plan as the basis for the upcoming year's annual budget. New or amended proposals are to be recognised for inclusion if the need is urgent, unavoidable and cannot be considered as part of the next review of the LTFP.

The budget process is the decision making process for allocating community resources to the strategic priorities. It is through this process that the City gains the Council's authority to spend relevant funds through the passage of the Annual Budget. These funds are allocated to business units to effectively manage the finite resources within its control. The City's ability to deliver upon its policy commitments and achieve its objectives within established business plans relies on effective budgeting.

Key Goals and assumptions within the Integrated Planning and Reporting Framework for the Long Term Financial Plan and in turn the Annual Budget are to include:

- To progressively meet the objectives of the City's Strategic Community Plan
- Continuous improvement in the financial position of the Local Government
- Achieve operating surpluses each year to fund asset management renewal expenditure
- The maintenance of a fair and equitable rating structure
- Maintaining or improving service level standards
- Consideration of debt to fund capital works
- Maintenance of cash reserves for future commitments
- Achieving full cost recovery for provision of services.

5. Key Components of the Long Term Financial Plan and Annual Budget

Key components of the Long Term Financial Plan and Annual Budget are to reflect the Council's commitment to its Integrated Planning and Reporting Framework are to include;

5.1 Operational Income

The principal sources of revenue for local governments are rates and service charges, user fees and charges, external grants and contributions, interest on investments, and other revenue. Each of these sources shall be considered as follows;

(a) Rates and service charges

- An equitable and suitable basis for the determination of rates levied
- Annual adjustments have regard to inflation and the City's employee cost index
- Economic factors that will impact on rate collections (for example, industry downturns)
- Appropriate late payment penalties
- Statutory service charges to meet additional service level provisions
- Achieving an appropriate Own Source Revenue ratio target.

(b) User fees and charges

- That fees consider user-pays and full cost recovery principles, or as prescribed under legislation.
- New services considered are matched with the introduction of proposed new fees.
- Existing fees and charges are reviewed annually with consideration of statutory limits, inflation and employee cost index.

(c) External Grants and Contributions

- The long term estimate for Local Government Financial Assistance Grants and untied road grants, their future impact of any changes in funding.
- Whether special grants programs are likely to continue in the future (for example Roads to Recovery and Care Services)
- Whether capital or operating grants are available for new services or planned infrastructure.

(d) Interest Revenue

- The City's policy *AF306 Investments* and the likely income from future interest rates.
- Other likely issues that will impact on revenue (for example, an increase in outstanding rates debtors, municipal funds or a reduction in available cash reserves).

(e) Other Revenue

- Other revenue sources that may exist.
- Opportunities to undertake private works to increase revenue.
- Opportunities to provide services to other local governments.
- Commercial leasing.

5.2 Operational Expenditure

(a) Employee Costs

- Existing staff numbers and projected requirements identified within the City's Workforce Plan.
- Anticipated wage and salary increases, including likely new enterprise agreement impacts.
- Future government policy decisions that will impact on employee costs (superannuation guarantee contributions).
- The City's past claims experience impact on future workers' compensation insurance premiums.

(b) Materials and Contracts

- New or proposed changes in service delivery.
- Changes in the cost of materials and contract rates.
- Impact of changes in legislation

(c) Utilities

- New or proposed buildings, parks, street lighting identified in Asset Management Plans.
- Impacts of proposed energy and water tariffs.
- Impacts of proposed energy and water efficiency programs.
- Change in ownership / leasing of Council properties.

(d) Depreciation

- Depreciation costs are to be sourced from the City's Accounting Policy and Asset Management Plans.

(e) Interest Expense

- The City's loan portfolio.
- Timing of cash flows

5.3 Capital Management

The City's assets deliver important community services. Their effective management is crucial to the sustainable delivery of services to meet community expectations. Asset management is critical to meeting strategic goals within the Integrated Planning and Reporting framework.

Asset Management, strategies and plans are informed by, and in turn inform, the community aspirations and service requirements in the Strategic Community Plan. Their development is to assist in delivering the City's strategic direction, service plans, projects and operational plans. These are to be identified within the Corporate Business Plan.

Integrating Asset Management will ensure that robust long term financial plans and annual budgets are developed within and formulate the City's financial Long Term Financial Plan capacity to deliver their strategic priorities into the future.

Asset management plans provide information on the cost, value, depreciation, residual value and useful life which are used in the accounting process for financial reporting. They also have an essential role in providing information for accurate and effective long term financial planning.

For the City to remain financially sustainable, it needs to be able to maintain the condition of its infrastructure and non-current assets at predetermined levels in order to deliver services to the community over the longer term. Planning should resist outcomes where the consumption of assets exceed asset renewal or replacement, based on Fair Value, other than in exceptional circumstances. Prudential management of assets should be committed to in order to contain future costs.

The Asset Management framework and guidelines will aim to:

- Enhance sustainable management of local government assets and financial resources through a 'whole of life' and 'whole of organisation' approach.
- Emphasise the importance of linking robust asset management plans with rigorous long term financial and strategic planning - as part of the Integrated Planning framework.
- Enable local governments to develop a process of continuous improvement in their asset management practice to match:
 - the changing service delivery needs of their communities; and
 - the increasing integration of asset management with their strategic directions, and
 - meet external funding provider requirements.

Forward and current expenditure on the City's asset management program is to be budgeted in accordance with developed Asset Management plans. The long term approach is to achieve the identified levels of required maintenance and renewal expenditure within the Asset Management plans, whilst addressing the Community's needs towards new capital development.

It must be considered as part of the proposal when accepting or applying for grant funding for new capital projects, the impact of operational asset maintenance and renewal funding obligations as part of the Long Term Financial Plan and future annual budgets.

5.4 Reserves

Reserves are required towards achieving the objectives of the City's Strategic Community Plan and to meet regulatory obligations. Any year end savings achieved within the City's annual budgets are to be transferred to reserves. Under only exceptional circumstances are reserve funds to be used to meet operational requirements.

Reserves are established for the following purposes:

- (1) to protect against risk,
- (2) to support capital development, and
- (3) manage and avoid contingency allocations within the annual budget.
- (4) to support the City's Integrated Planning Framework.

Reserves are established to meet the management of funds for two requirements.

(1) Externally Restricted Funds

Reserves that are classified as externally restricted must meet the following criteria:

- There is a legal requirement that governs the use of the funds; or

- If the funds are not utilised for the purpose for which they were received, there is a requirement or obligation to return the funding to its contributor, or to apply the funds in some other authorised manner.

(2) Internally Restricted Funds

Reserves that are classified as internally restricted usually have the following characteristics:

- There is no legal requirement that governs the use of the funds;
- The reserve has been established for some internal purpose. However, if that purpose does not eventuate or Council changes its priorities the funding can be diverted to other activities and or purpose, subject to approval by Council.

To meet the City's strategic objectives and statutory requirements, the following reserves are maintained.

(a) Land, Building and Development Reserve (Cash Backed)

Purpose - Acquisition, Development and Improvement of Land and Buildings and make loans to Council's Town Planning Schemes for the purpose of acquiring Public Open Space, together with investigations and planning associated with Council land holdings, and infrastructure, including the development of asset management programs and acquisition of ground water licenses.

Subject to approval by Council, this Reserve may also make funds available for the following:-

- To repay or refinance existing loan borrowings
- To provide internal finance as an alternative to external borrowings
- For payments of compensation awarded against the City

Requirement – Internally restricted funds

Financial strategy - The reserve is funded through annual allocations and the proceeds from land sales and developments, to progressively save for new capital projects and deliver upon Strategic Community Plan objectives. The reserve fund balance should at least maintain its relativity to growth in the City's population and long term planning needs.

(b) Waste Management Reserve (Cash Backed)

Purpose - Acquisition and development of infrastructure, plant and equipment and studies/investigations associated with the City's waste management.

Requirement – Internally restricted funds

Financial strategy – The reserve is funded through annual allocations from the service charge, cash backed depreciation and any year end savings to achieve the City's waste management plans. The reserve fund balance should at least maintain its relativity to growth in the City's population and long term planning needs.

(c) Aged and Disability Services Reserve (Cash Backed)

Purpose - To fund operational and capital requirements associated with the City's aged care and disability services.

Requirement – Internally restricted funds

Financial strategy – To separate the combined reserve into internally and externally required components for the services provided. Operational surplus and deficits plus capital management requirements are to meet external funding provider and statutory guidelines and obligations.

(d) Insurance Reserve (Cash Backed)

Purpose - To provide for the liabilities that may arise from the City's external and internal Insurance requirements and to provide funding for various risk management strategies,

including operational safety and health initiatives, that will assist in reducing Insurance premiums

Requirement – Internally restricted funds

Financial strategy – The minimum reserve balance to be maintained at the maximum level of workers compensation insurance premium and deposits payable. Staff resourcing to address injury prevention and assist in return to work programs.

(e) Infrastructure Reserve (Cash Backed)

Purpose - To accumulate funding for Infrastructure Works that are scheduled but may not commence within the current financial year. Funds held in the Reserve will retain their Capital works identity and be accessed in a future period when Capital works commence, the exceptions to this requirement is that funds can be reallocated by Council resolution to meet higher priority Capital work's needs. If funds are reallocated by Council resolution they can only be applied against Infrastructure Capital works in accordance with this reserve fund.

Requirement – Internally restricted funds

Financial strategy – The reserve fund balance is designed to assist the City in support of the City's long term asset management renewal funding requirements.

(f) Sustainability Reserve (Cash Backed)

Purpose - Expenditure associated with undertaking exemplary projects and practices which comply with the sustainability principles:

- (1) to reduce the waste of fossil fuels, scarce metals and minerals;
- (2) to reduce the use of persistent chemicals and synthetic substances;
- (3) improved management of land, water, wildlife, bush land, soil and ecosystems; or,
- (4) the education and promotion of sustainability principles.

Requirement – Internally restricted funds

Financial strategy – The reserve is funded through an annual allocation along with demonstrable energy efficiency dividends of the Utility Revolving Fund initiative.

(g) Bentley Regeneration Reserve (Cash Backed)

Purpose - To provide funding for the urban regeneration of the suburb localities of Bentley and St James, for initiatives including the feasibility, delivery and enhancement of community facilities, public open space and infrastructure.

Requirement – Internally restricted funds.

Financial strategy – To be funded through the sale of the Southern Reserve assets and contribution from the Department of Communities called the Community Development Fund. The reserve will be closed following the completion of related projects.

(h) Canning City Centre Reserve (Cash Backed)

Purpose - Planning, development and implementation of the Canning City Centre Regeneration Strategy, including undertaking studies, investigations, civil works, land purchases and development projects associated with the Canning City Centre.

Requirement – Internally restricted funds.

Financial strategy – To be funded through specified area rating.

(i) Property Surveillance & Security Reserve (Cash Backed)

Purpose - To retain any surplus funds that may arise from the Property Surveillance and Security Service Charge that will be used to offset future years charges along with the purchase of plant and equipment used for the service.

Requirement – Externally restricted funds.

Financial strategy – Funded through the property surveillance and security charge. Operational surplus and deficits plus capital management requirements are to meet through cash backing of depreciation, to achieve the City's security management plans.

(j) Canning Vale Specified Area Rate Reserve (Cash Backed) *New

Purpose - To retain any surplus funds that may arise from the Canning Vale Specified Area Rate that will be used to offset future years charges along with the purchase of plant and equipment used for the service.

Requirement – Externally restricted funds.

Financial strategy – Funded through the Canning Vale specified area rate. Operational surplus and deficits plus capital management requirements are to meet through cash backing of depreciation, to achieve the City's service delivery.

(k) Under Ground Power Service Charge Reserve (Cash Backed)

Purpose - To retain any surplus funds that may arise from the underground power projects for the suburb localities within the City, to offset future year's charges and for initiatives including the feasibility, delivery and enhancement of community facilities, public open space and infrastructure.

Requirement – Externally restricted funds.

Financial strategy – Funded through the Underground Power Service Charge for annual surplus and deficits between funds raised and loan repayments made.

(l) Efficiency and Innovation Investment Reserve (Cash Backed)

Purpose - To fund costs associated with projects which improve the City's organizational efficiency and support innovation.

Requirement – Internally restricted funds.

Financial strategy – Funded through Annual Budget allocations and efficiency savings identified as resulting from previous initiatives.

(m) Golf Course Reserve (Cash Backed)

Purpose - To fund costs associated with the Golf Course.

Requirement – Internally restricted funds.

Financial strategy – The reserve is funded through the net operating proceeds from the Whaleback Golf Course.

(n) Plant Replacement Reserve (Cash Backed)

Purpose - To fund costs associated with the replacement of items of plant.

Requirement – Internally restricted funds.

Financial strategy – Funded through the Annual Budget operating charges for fleet insurance and the difference in actual insurance premiums paid, achieved by internal management of claims performance. The reserve's accumulation reflects the City's efforts towards reducing insurance claims, redirecting these savings towards new plant replacement and renewal.

(o) Community and Sporting Facility Reserve (Cash Backed)

Purpose - To meet the needs of community groups and the Community Partnership Fund initiative.

Requirement – Internally restricted funds.

Financial strategy – The reserve is funded through an annual allocation as part of the Community Partnership Fund initiative.

(p) Rossmoyne Retirement Village Reserve (Cash Backed)

Purpose - To meet the statutory requirements and obligations for the financial reporting needs of the Village.

Requirement – Internally restricted funds.

Financial strategy – The reserve is funded through the net operating proceeds of the Village, management fees and proceeds of capital sales.

(q) Wilson Retirement Village Reserve (Cash Backed)

Purpose - To meet the statutory requirements and obligations for the financial reporting needs of the Village.

Requirement – Internally restricted funds.

Financial strategy – The reserve is funded through the net operating proceeds of the Village, management fees and proceeds of capital sales.

(r) HVAC Reserve (Cash Backed)

Purpose - To fund costs associated with the maintenance, replacement and installation of heating, ventilation, and air-conditioning plant equipment within the City's facilities.

Requirement – Internally restricted funds.

Financial strategy – Funded through Annual Budget allocations.

(s) Legislative Expense Reserve (Cash Backed)

Purpose - To fund the City's periodic and legislative expenses, which occur on a frequency of greater than one year.

Requirement – Internally restricted funds.

Financial strategy – Funded through annual budget allocations.

5.5 Debt as a funding option

It is recognised that the prudent use of loan borrowings for the acquisition or construction of assets may be considered in order to maximise community benefit.

The following principles are to be applied when considering loan borrowings;

- The City should not borrow to fund operational expenditure.
- The City should not borrow to fund recurrent capital expenditure that is expected to occur on an annual or similar basis around the same level each year.
- The term of the borrowing should be no more than half the economic life of the asset being acquired or constructed. Sufficient funds should be set aside in reserve to renew or replace that asset at the end of its life through rates revenue.

When determining funding options in the development of the City's financial plans an assessment of the most advantageous and responsible funding sources (rates, grants, borrowings etc.) are to be considered. The City may give consideration to borrowing money for the acquisition or construction of an asset where;

- All alternative options for undertaking the project without borrowing have been investigated and proven less advantageous to the City. Proper and detailed analysis of the costs and benefits of the proposed borrowing must be undertaken and documented.
- The net income and cost stream after the asset to be acquired or constructed can be taken into account exceeds the cost of borrowing over the life of the loan. This includes an assessment of the cost index where to save for the project may result in significantly higher costs than to acquire or construct the asset today.
- The impact of the proposed borrowings does not burden the community with unnecessary identified risks.

- Repayments will be met by a third party (e.g. self-supporting loans).
- All borrowings are to be undertaken in strict accordance with the statutory requirements as per the *Local Government Act 1995*.

5.6 Key Assumptions Schedule

City staff are to maintain a schedule which details the assumptions, estimates and targets made for the components of the Long Term Financial Plan and Annual Budget. These are to reflect the Council's commitment to its Integrated Planning and Reporting Framework. The key assumptions schedules are to be an appendix to the Budget statements.

5.7 Financial Ratios

The City's Long Term Financial Plan and Annual Budget are to report upon and be prepared in consideration of the Department of Local Government and Communities prescribed financial sustainability ratios. These ratios include;

- Current ratio
- Debt service cover ratio
- Own source revenue coverage ratio
- Operating surplus ratio
- Asset sustainability ratio
- Asset consumption
- Asset renewal

The above ratios are calculated as per Appendix 2

Levels of compliance have been established by the Department of Local Government and Communities for each ratio. The City's financial strategy is towards advanced standard compliance across the seven ratios within its long term financial planning.

GOVERNANCE REFERENCES

Statutory Compliance	<i>Local Government Act 1995</i>
Process Links	

POLICY ADMINISTRATION

Program	Officer Title	Authority to Approve	
Canning Community & Commercial	Director Canning Community & Commercial	Council	
Version	Decision Reference	Synopsis	Delegation No
1	New policy June 2015		
1	SCM 1 July 2015 (CR-042-15)	Adopted	
2	Amended 12 November 2018		
3	Revised OCM 19 February 2019	Adopted	

Key Assumptions Schedule		
Long Term Financial Plan / Annual Budget		
Ref	Item	Assumptions and Notes
1.0	Overall Aim	
1.1	Integrated Planning	
1.2	Specific Strategies	
2.0	Operational Income	
2.1	Rates and Service Charges	
2.1.1	Basis of Rates Levied	
2.1.2	Annual Increase	
2.1.3	Economic factors considered	
2.1.4	Penalties and Interest	
2.1.5	Service Charges Levied	
	Underground Power	
	Security	
	Waste	
2.1.6	Own Source Revenue ratio target	
2.2	<u>User Fees and Charges</u>	
2.2.1	Basis of determination	
	User Pays	
	Statutory	
2.2.2	New services fees and charges	
2.3	<u>External Grants and Contributions</u>	
2.3.1	FAGs estimates	
2.3.2	Existing Grants	
	Roads to Recovery	
2.3.3	New Grants	
2.4	<u>Interest Revenue</u>	
2.4.1	City Investment Policy earnings	
2.4.2	Other	
2.5	<u>Other Revenue</u>	
3.0	Operational Expenditure	
3.10	<u>Employee Costs</u>	
3.1.1	Organasitional Structure	
3.1.2	EBA	
3.1.3	Government Policy (including SGC)	
3.1.4	Worker's Compensation	
3.20	<u>Materials & Contracts</u>	
3.2.1	Service Delivery	
3.2.2	Cost of Materials and Contract Rates	
3.30	<u>Utilities</u>	
3.3.1	New Assets	
3.3.2	Tariff changes	
3.3.3	Energy efficiencies	
3.3.4	Changes on asset ownership	
3.50	<u>Depreciation</u>	
3.5.1	City Accounting and Asset policies	
3.60	<u>Interest Expense</u>	
3.6.1	City Loan Schedule	
4.0	Capital Management	
4.10	<u>Maintenance</u>	
4.1.1	Asset Management Plans	
4.1.2	Service Levels	
4.20	<u>Renewal</u>	
4.2.1	Asset Management Plans	
4.2.2	Asset Improvement Plans	
4.2.2	Service Levels	
4.30	<u>New</u>	
4.3.1	Strategic Community Plan	
5.0	Reserves	
5.10	Year end surplus transfers	
5.20	Changes in Risk identified	
5.30	Changes in Reserves	
6.0	Debt	
6.10	Existing loan schedule	
6.20	New debt	

Appendix (2) Financial Ratios

Current Ratio	$\frac{\text{Current Assets minus Restricted Assets}}{\text{Current Liabilities Minus Liabilities Associated with Restricted Assets}}$
Debt Service Cover Ratio	$\frac{\text{Annual Operating Surplus Before Interest and Depreciation}}{\text{Principal and Interest}}$
Own Source Revenue Coverage Ratio	$\frac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$
Operating Surplus Ratio	$\frac{\text{Operating Revenue minus Operating Expense}}{\text{Own Source Operating Revenue}}$
Asset Sustainability Ratio	$\frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation}}$
Asset Consumption Ratio	$\frac{\text{Depreciated Replacement Cost or Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$
Asset Renewal Funding Ratio	$\frac{\text{NPV of Planned Capital Renewals over 10 Years}}{\text{NPV of Required Capital Renewals over 10 Years}}$